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In the Supreme Court of the United States

OCTOBER TERM, 1942.

Nos. 945, 946.

FORD MOTOR COMPANY,
Petitioner,

vs.

THE GORDON FORM LATHE COMPANY,
Respondent.

BRIEF OF RESPONDENT,
THE GORDON FORM LATHE COMPANY,
In Opposition to the Petition for a Writ of Certiorari of The Ford Motor Company.

Statement: The Court of Appeals for the Sixth Circuit affirmed the findings and conclusions of the Special Master on the accounting in all respects (133 Fed. (2) 487; R. Vol. V, pp. 2-26). The District Court adopted the findings and conclusions of the Report of the Master on the profits and damages following the judgment against the petitioner here, for the infringement of a patent owned by respondent, The Gordon Form Lathe Company, in all respects except one. The infringement in this case was colossal. It extended from June 16, 1925 to March of 1931. During that period of time the defendant turned on the infringing machines 3,420,166 T model camshafts, 4,306,504 A model camshafts, and 275,664 tractor camshafts. There were 8 cams on each shaft, making a total of 8,002,334 camshafts turned. The Master found that the defendant's profits on this infringement amounted to $206,824.22 (T. R.

93). The District Court eliminated the overhead item from these profits. The Circuit Court of Appeals affirmed the Master's findings in all respects and stated (133 F. 2d 493):

> "The finding of the Master that the Ford Company enjoyed a savings from its infringement of the Gordon patent is supported by the overwhelming weight of the evidence."

The petitioner seeks a review of many points in which the Master, the District Court and the Court of Appeals have been in agreement. The respondent opposes the petition on each of the grounds advanced by the petitioner.

The respondent respectfully points out the reasons why, in its opinion, the present petition should be denied:

1. There is no diversity of decision between the Courts of Appeals below on any of the questions presented in this petition. *Keller v. Adams*, 264 U. S. 311, 314; *Layne v. Western Well*, 261 U. S. 387, 393.

3. There is uniformity of decision with the prior decisions of this Court and with the prior decisions of the Circuit Courts of Appeals following such decisions on the questions presented by this petition.

3. There is no diversity of decision between the Circuit Court of Appeals in the Sixth Circuit and the Special Master who heard and saw the witnesses. On the contrary the two are in accord.

4. No question of public interest is involved; petitioner shows no other case in which any of the alleged questions are involved. On this record the interest is limited to the litigants.

5. This is the last of the suits on this patent; the patent is expired; everybody but this defendant settled after the first case. The litigation having reached the accounting phase is no longer subject to the rules governing patents and the litigation and the questions here involved

are therefore not confined to one circuit as in the *Schriber-Schroth* case.

6. Several of the questions presented to this Court were belatedly brought into the case by petitioner.

7. The specific questions presented to this Court were all ruled upon by each of the courts below.

While this Court undoubtedly has jurisdiction and the right to grant Petitions for Certiorari, this Court has said that it would not take up cases to settle principles important to the parties but unimportant to the public. Thus in *Layne and Bowler Corporation v. Western Well Works*, 261 U. S. 387, the Court said (p. 393):

> "If it be suggested that as much effort and time as we have given to the consideration of the alleged conflict would have enabled us to dispose of the case before us on the merits, the answer is that it is very important that we be consistent in not granting the writ of certiorari except in cases involving principles the settlement of which is of importance to the public as distinguished from that of the parties, and in cases where there is a real and embarrassing conflict of opinion and authority between the circuit courts of appeal."

This Court has also said that it would not grant certiorari to review concurring decisions below. The Special Master and the Circuit Court of Appeals concurred in every finding and every conclusion, and the District Court adopted all of the findings and conclusions of the Special Master except one. All but one of the points made by petitioner insofar as they were presented to the Courts below are from findings and conclusions each of which are concurring in all respects. In *General Pictures v. Electric*, 304 U. S. 175 this Court said (pp. 178-179):

> "Moreover, the decision on that point rests on concurrent findings. They are not to be disturbed unless plainly without support. *United States v. Chemical Foundation*, 272 U. S. 1, 14. *United States v. Mc-*

Gowan, 290 U. S. 592. *Alabama Power Co. v. Ickes,* 302 U. S. 464. There is evidence to support them. Nor would the writ be granted to review the questions of anticipation and invention that petitioner argues, for as to them there is no conflict between decisions of circuit courts of appeals. *Layne & Bowler Corp. v. Western Well Works,* 261 U. S. 387, 393. *Keller v. Adams-Campbell Co.,* 264 U. S. 314, 319-320. Cf. *Stilz v. United States,* 269 U. S. 144, 147-148."

The rule of respect for concurring decisions of courts below and (the special master who saw and heard the witnesses) announced a long time ago by this Court in *Adamson v. Gilliland,* 242 U. S. 350 has now been given the force of law under Rule 52 of the Federal Rules of Civil Procedure.

Summary of the Matter Involved: Petitioner's statement (pages 2-9 of the petition) of the prior litigation of the patent is generally correct although incomplete and colored with self-serving statements and partisanship.

The following statement is made to briefly supplement the statement of petitioner. During this period several other suits were begun for infringement of the patent, these were settled by agreement of the parties. Almost the entire automobile industry adopted and began using the Gordon invention as soon as its value became known. There was an abandonment of the prior methods and machines used to cut cams on the automobile engine cam shafts. The cam shafts in question are those that open and close the exhaust and intake valves of the engine and the cams are positioned so that each valve will open in timed relation to the piston within the engine cylinder and in proper sequence with the valves in the other cylinders. The machines of the invention cut all of the cams on the camshaft in a simultaneous cutting operation. With the exception of the petitioner the automobile industry recognized the value of the invention by requesting licenses to use the invention.

On pages 5 and 6 of the petition, petitioner incorrectly says respondent kept from the court information concerning the petitioner's use of the camshaft shaper for making camshafts; and petitioner concludes that because of this fact the Circuit Court of Appeals held the patent to be a pioneer patent (32 F. 2d 55). The fact is that the Ford camshaper was referred to in the first litigation under the Gordon patent (*Melling v. Gordon Form Lathe Co.*, 14 F. 2d 437) to all of which the attention of defendant has been frequently called and is therefore well known to defendant. In that suit proof was offered concerning that Ford camshaper and how it worked. This testimony was read into the record in the instant case (T. R. 292-296). That testimony was given in 1926. The fact is also that others engaged in the industry knew that the Ford Company was using Ford camshapers (T. R. 303) and Jones, of the White Motor Company, saw them in operation in the Ford plant in 1926 (T. R. 301). When the instant case was tried on the merits, the Ford camshaper and its operations were described at length; and the court below in sustaining Gordon's patent stated (87 F. 2d 390, 391):

> "Even brief discussion of all the asserted new prior art in the present record would unduly extend this opinion. Full consideration thereof brings conviction of its insufficiency to warrant modification of our previous conclusion that the patentees were pioneers in disclosing means for oscillating the tool in synchronism with its reciprocatory movements and the revolution of the work by the use of an appropriately shaped cam, moveable frame, and bell crank lever tool support for use in cutting nongeometric forms and that the Walcott machine is an infringement."

The petitioner implies (page 6) that there was undue delay in starting this suit. The patent in suit issued June 16, 1925. The *Gordon v. Walcott* suit was begun in July, 1926 just a little over one year later, for infringement of

the patent in suit. The *Walcott* suit was decided by the Sixth Circuit Court of Appeals, April 12, 1929. Without including the time allotted for a writ of certiorari, the present suit was begun in about one and one-half years. The *Walcott* suit was a test case for respondent. The law has been firmly settled that the prosecution of a test suit is a proper defense against the charge of laches. As stated by Judge La Combe in *Timolat v. Franklyn,* 122 Fed. 69 (C. C. A. 2) at page 69:

> "They were under no obligation to sue everyone at the same time."

The decision of the Circuit Court of Appeals sustaining the Gordon patent as against Melling (*Gordon Form Lathe Co. v. Walcott Machine Co.,* 32 F. 2d 55) was handed down April 12, 1929. On June 12, 1929, Gordon forwarded a copy of that decision to the Ford Motor Company (T. R. 1684-1686), calling defendant's attention to its infringement, and prior notice of infringement to defendant given under date of July 1, 1925, and offering to settle with defendant. Before this action was commenced Gordon wired Ford (T. R. 1525) with respect to commencement of an action, and proposing a conference with Ford's attorneys to discuss possibilities of settlement. On this issue the Master found (T. R. 82):

> "However, by and large, the plaintiff has taken the normal course in enforcing its patent rights. It first sued the manufacturer of the infringing machines and, after getting a decree against it, sued the user of the machines."

The lower courts and the Master were in agreement on the standard of comparison and petitioner complains (page 6) because they all approved the Landis grinder as a standard of comparison on tractor cam shafts prior to the machine of the patent.

In its plant before the infringement, the petitioner had two cam cutting machines more successful than the rest,

the Landis grinder and the Ford shaper. It used the shaper in making the model T camshafts and the Master ruled, that it could have been adapted to the Model A shafts, which were not made until after the beginning of the infringement. Accordingly the Master held the shaper a proper standard of comparison for the Model A shafts. While the petitioner had both the shaper and the Landis grinder in its plant, it chose the Landis grinder to cut the tractor cam shafts. It urges here that the shaper is the proper standard of comparison despite the fact that when it was confronted with a choice it chose the Landis grinder. A company as successful as petitioner never used an inferior machine when a better one was available. There is a sound basis for the ruling of the Master, adopted and affirmed by the courts that the Landis grinder was the proper standard of comparison for the tractor camshafts.

The Master's finding on this specific question (T. R. 35) is to the effect that while the modified shaper was feasible for the tremendous Model A production of the defendant, the defendant's own witnesses testified that at no time did tractor production become great enough or its future sufficiently certain to justify the construction of a special shaper for them. The Master points out that a good deal of work beyond Oberhofken's rough sketches would have been necessary before blue-prints could have been completed and the machines ordered; and that these machines would no doubt have been considerably more expensive than the Model T shapers and it would have been difficult to find a use for them if tractor production were discontinued, since the shaper is inherently not an adaptable type of machine.

The straightening operation (page 7) resolves itself into a question of fact. The Master said on page 41 of the record:

> "independent expert witnesses testified that straightening the shaft before machining the cams was always

considered the proper practice with all types of machine * * *. Furthermore, it appears that the standard of workmanship was raised from time to time; * * *.

The conclusions I draw from this and other evidence not detailed here is that while the use of the Walcott lathes may have been the occasion for adding the straightening operation it was not the underlying cause for doing so, the operation being rather attributable to improvement in defendant's standards of workmanship."

On questions of fact, the Master should be affirmed, especially where both sides presented so much evidence on the question. As was stated by Mr. Justice Cardozo in *Duplate v. Triplex*, 298 U. S. 448, 450:

"The finding by the Master in that regard was approved by the District Court and later by the Court of Appeals. It will be accepted as a datum here."

Petitioner complains on pp. 7 and 8 that no apportionment was granted to it in this case. The Master found that defendant's evidence on this issue consisted wholly of expert testimony to the effect that 100% of the value of the infringing machine was attributable to the Melling improvements (T. R. 70). The Master's finding denying apportionment was concurred in by the District Court and the Circuit Court of Appeals. The Circuit Court of Appeals stated (133 F. 2d 494):

"But the Gordon Company having shown the commingling of profits by the Ford Company, and it appearing that the latter company failed to keep records or to supply evidence that would disclose what proportion of the profits arose from the infringing devices and what proportion, if any, from Melling's improvements, the burden again returned to the Ford Company, which it has failed to carry, and such failure creates an unavoidable liability."

The petitioner seeks the benefits and advantages received by the licensees (page 9) where it says the reasonably royalty is too high. It does not say that it was aware of the licenses at the time they were made and that this petitioner stood mute.

Jurisdiction: The cases presented by petitioner to sustain this Court's jurisdiction to issue the Writ of Certiorari disclose that in both the *Muncie Gear Works v. Outboard Marine & Mfg. Co.*, 315 U. S. 759 and *Exhibit Supply Co. v. Ace Patents Corp.*, 315 U. S. 126, the patent in the instant litigation was confined to a single circuit in addition to the important questions; in *Morton Salt Co. v. G. S. Suppiger*, 314 U. S. 488 and *Lincoln Engineering v. Stewart Warner Corp.*, 303 U. S. 546, there was a conflict of decision which is a jurisdictional ground in cases presented to this Court; *Mishawaka Rubber & Woolen Mfg. Co. v. Kresge Co.*, 316 U. S. 203, a trade mark accounting question the opinion of the Court was silent on the reasons for granting the Writ.

PETITIONER'S QUESTIONS PRESENTED.

(1)

(a) This question was not pleaded as it must be (Federal Rules of Civil Procedure, Rule 8(c)) and is, therefore, waived.

(b) There being no issue, there is no evidence except the decree itself which disproves defendant's contentions.

(c) None of the three tribunals agrees with defendant's contentions; insofar as it was presented to any, each disagrees with defendant; the comments of the Court of Appeals were dicta; the comments of the Master decide it against defendant.

(d) Defendant's contention is contrary to the decisions of this Court (*Bigelow v. Old Dominion*, 225 U. S. 111,

132; *Birdsell v. Shalliol*, 112 U. S. 485; *Lovejoy v. Murray*, 3 Wall. 1; *Sessions v. Johnson*, 95 U. S. 347; *Corsicana Nat. Bank v. Johnson*, 251 U. S. 68, 84). No decision of any Court supports defendant's claims.

(e) The question is particular and local to the parties; as presented by defendant it is predicated on the simultaneous occurrence of eight events which have not occurred simultaneously in a hundred years, do not occur simultaneously here and, no doubt, will never occur simultaneously.

(f) Defendant's claims are contrary to the statutory rights of the patentee since the statute grants the patentee the right to recover from the user as well as from the maker (R. S. 4884 and R. S. 4921, Title 35, Secs. 40 and 70).

(g) There never was any satisfaction for the use of the defendant's machines and never any waiver of the patentee's rights to collect for the infringing use and all three tribunals below so held.

(2)

This is a question of fact decided against defendant by all three tribunals below; it is local to this case.

(3)

Here a question of fact is presented; all three tribunals below decided it against defendant; it is local to this case; defendant's advantages, savings, gains and profits were due to the use of the invention of the patent in suit, as all three tribunals below held. Gordon's invention is a pioneer invention; his first embodiment of his invention was not as efficient as later embodiments, such as defendant used (*Hildreth v. Mastoras*, 257 U. S. 27, 30, 34). That is true of all pioneer inventions and all three tribunals below correctly held that Gordon is not limited to the particular embodiment shown in his patent, holdings consistent

with rulings of this Court ancient and current (*U. S. v. Societe,* 224 U. S. 309; *Winans v. Denmead,* 15 How. 330).

(4)

The patented machine was successful throughout, as all the tribunals have held; the machine used by defendant in infringement was one of the patented machines. The embodiment of the patented machine illustrated in the patent in suit was designed for a particular type of cam; that in the infringing machine for a variant cam. Both embodied the Gordon invention. Both were successful commercially. Every invention—especially every pioneer invention—is embodied in variant machines for variant products. That is one of the merits of a pioneer invention. All three tribunals below were in concord in following this Court's rulings on apportionment.

(6)

This question is one of fact. The Master found that the petitioner gained advantages in overhead by the use of the infringing machines; and the Master found as a fact the amount of the overhead savings arising from the use of these machines. The Court of Appeals concurred in and approved this finding of fact of the Master. This issue is distinctly local to this case.

(5) and (7)

Here are presented questions of fact local to this case and decided adversely to petitioner's contention in all the Courts below. Not only does the proof show that the patentee was damaged, but that the value of the invention claimed in this accounting by defendant was inadequate.

If, in these premises, the law is important, it is that damage to a patentee even when not proved, is presumed (*A. T. & T. vs. Radio,* 5 Fed. (2) 535; *U. S. Frumentum*

vs. Lauhoff, 216 Fed. 610, 623, C. C. A. 6), and that a license to make and sell is not a measure for a license to use (*Dowagiac v. Deere & Webber*, 284 Fed. 331, 340 (C. C. A. 8)), nor satisfy the provision of the statute (Title 35, Section 70) relating to an injunction against future use (*The Suffolk Mfg. Co. v. Hayden*, 3 Wall. 315, 320).

ARGUMENT.

The points upon which petitioner relies, and which it claims it will urge if a writ of certiorari is allowed by this Court, all involve issues of fact which were resolved against the petitioner by the Master to whom this case was referred, and by the District Court (save only as to the issue on overhead), and by the Court of Appeals on all issues. In addition to the reasons which respondent has advanced on pages 2 and 3, as to why this Court should not grant a writ of certiorari to petitioner in this case, the respondent briefly summarizes its argument with respect to each of the points upon which petitioner relies.

POINT (1): Respondent made no "compromise agreement" or "deal" with Walcott Machine Company, the infringing manufacturer.

In *Gordon Form Lathe Company v. Walcott Machine Company*, 32 F. (2d) 55 (1929), the Circuit Court of Appeals of the Sixth Circuit found that the machine which the defendant there manufactured and sold, and which the petitioner here used, infringed Gordon. The Court reversed the District Court and remanded the case. Thereafter, proceedings were had in the District Court, resulting in an amended final decree against that company. This amended final decree is set forth at length in the record (R. 1670-1672). Paragraphs (6) and (8) of that amended final decree are:

> "(6) It being represented to the Court that the Defendant is not financially able to respond to a money

judgment for damages and/or profits, no accounting is ordered, but on the contrary it is ordered that the Plaintiff recover of the Defendant nominal damages in the sum of One Dollar ($1.00), without reference to a Master."

"(8) That Plaintiff do recover of the Defendant Four Thousand Dollars ($4,000.00) as its costs in this Court and the Court of Appeals and judgment may be had against the Defendant for such Four Thousand Dollars ($4,000.00)."

Apparently, the petitioner makes the same claim before this Court as it made in the court below, in the District Court, and before the Master, to the effect that the respondent entered into some sort of a compromise agreement with the Walcott Machine Company (the defendant in 32 F. (2d) 55), under the terms of which respondent accepted $1.00 nominal damages and $4,000.00 of costs, in order that the respondent might then proceed against purchasers of the infringing machine and recover large sums of money from these purchasers.

The petitioner did not plead this issue when this case was tried on the merits in the District Court. It was raised for the first time on the hearing before the Master in the accounting matter. The Master who heard this accounting matter well understood this issue. His summarization of petitioner's claim is found on page 81 of the record.

Whether such a compromise agreement was or was not made presented a clear-cut question of fact; and the burden was on the petitioner to prove that such an agreement had been made. Petitioner did not meet this burden. The testimony in the record on this point is undisputed. That testimony (R. 970-971) is to the effect that the amended final decree in the *Walcott* case (R. 1670-1672) was presented by counsel for respondent "*after investigation*"; that counsel was not aware of any settlement "we made with the Walcott Company"; that while there was no

formal bill of costs filed in the *Walcott* case, "we checked our costs quite carefully at the time, and I think they ran quite in excess of that figure of $4,000." On this issue of fact the Master found (R. 82):

> "There is no evidence here to establish that the decree for nominal damages in the *Walcott* case was not based upon the financial condition of the Walcott Company, as recited in the decree. * * * Therefore, even if a defense based on these claims of defendant can be raised at this time, I find and conclude that the defense is not substantiated by the evidence."

The District Court and the Court of Appeals are in accord with this finding.

In the court below, the petitioner (Point 13) of its statement of points to be relied on upon appeal under Rule 75(d)) assigned this finding as error (R. 1376); and the court below affirmed the judgment of the District Court on the petitioner's appeal (see Decree—No. 9123, Vol. V, R. p. 2).

On page 20 of its brief petitioner sets forth an excerpt from the decision of the court below. The Court of Appeals did not discuss this assignment of error at all in its opinion, apparently for the obvious reason that the assignment was without merit. In its recital of the historical background of this litigation, the court below used the language quoted by petitioner on page 20 of its brief (133 F. (2d) 487, 491). This language was a mere recital, not chosen to indicate that the Court of Appeals disapproved the specific finding of the Master concurred in by the District Court, *since the decree of the court below expressly affirmed the Master and the District Court on the petitioner's appeal.*

If, contrary to the recital in the amended decree in the *Walcott* case (32 F. (2d) 55), the Walcott Company was financially able to respond to a money judgment; then it is pertinent to inquire why petitioner did not proceed against

the Walcott Company to recover under the patent guarantee clause given to petitioner when it brought the infringing machines (R. 1610).

Birdsell v. Shaliol, 112 U. S. 485 (1884), which petitioner (p. 20 of its brief) refers to as "the old case," states a rule of the law of torts which is fundamentally sound, and which has been consistently followed. The rule in that case is that if one person is in any case exempt from being sued for damages for using the same machine for the making and selling of which damages had been recovered against and paid by another person, it can only be when actual damages have been paid. The rule is grounded upon the theory that in such a case the plaintiff has been deprived of the same property by the acts of two wrongdoers, and has received full compensation from one of them. That case points out that to say that the mere obtaining judgment for nominal damages vests the property in the defendant would be an absurdity; and that under our law, judgment against one joint trespasser, without full satisfaction, is no bar to a suit against another for the same trespass.

The rule in *Birdsell v. Shaliol, supra,* is grounded on *Lovejoy v. Murray,* 3 Wall. 1. *Lovejoy v. Murray* was followed and applied in *Bigelow v. Old Dominion Copper Co.,* 225 U. S. 111, 132 (1912).

In many respects the instant litigation almost parallels the litigation in *Birdsell v. Shaliol, supra.* In that case Birdsell, the patentee, granted a license to a company of his own, the Birdsell Manufacturing Company, to make, vend, and use the invention. Birdsell *individually* brought an action against the Ashland Machine Company for infringement of his patent. In that suit the Birdsell Manufacturing Company was not made a party; but a perpetual injunction was decreed, and the case was referred to a Master, who reported that the defendant had made no

profits for which it should account, and that if any damages had been sustained, they had been sustained by the Birdsell Manufacturing Company, and that Birdsell was entitled to recover only $1.00 as nominal damages. The Ashland Machine Company afterwards, pending that suit, became insolvent; and a decree was rendered in Birdsell's favor for nominal damages, and for costs, which were paid by that company. *Thereafter,* Birdsell and the Birdsell Manufacturing Company sued Shaliol *et al.,* the user of one of the machines made by the Ashland Machine Company. *It was in this latter suit that this Court held that the nominal damages decreed in the former action, to which Birdsell was a party, did not prevent recovery as against the user of the machines.*

As far as petitioner's Point (1) is concerned, this fact issue was resolved against it by the Master; and the Master's finding was concurred in by the District Court and the Court of Appeals. The situation thus presented does not admit of the issuance of a writ by this Court for the sole purposes of reviewing this finding of fact which rests on undisputed testimony. There is no diversity of decision between the Master, the District Court, and the Court of Appeals on this fact question.

POINT (2): The Master resolved the issue of fact on the "straightening operation" against petitioner; and the District Court and the Circuit Court of Appeals approved and accepted the Master's finding.

The real substance of petitioner's Point (2) is that it claims a deduction from its infringing profits for the use of a straightening operation which it claims was added at the time that it began to use the infringing machines. The Court below discusses this issue at length (133 F. (2d) 487, 498), and refers to the Master's finding with respect to this straightening operation, and points out that the Master

found that (133 F. (2d) 487, 498) "the additional operation was not attributable to the difference between the use of the infringing machines and the shaper."

On page 24 of its brief, the petitioner only sets forth a part of the findings of the Master on this point. The Master made the following express finding (R. 41) which immediately precedes that quoted by the petitioner:

> "The conclusion I draw from this and other evidence not detailed here is that while the use of the Walcott lathes may have been the occasion for adding the straightening operation, it was not the underlying cause for doing so, the operation being rather attributable to improvement in defendant's standards of workmanship. Under the testimony of its own witnesses, defendant could have made the Walcotts exactly like the shapers with regard to the necessity of straightening by simple changes with respect to steady rests, but it preferred instead to adopt the straightening operation, which was undoubtedly the better practice. If the extra straightening operation was in fact attributable to the difference in machines, it is indeed difficult to see why the defendant upon discovery of that fact did not reject the Walcott machines instead of buying more and then discarding the shapers."

The rule is that where a deduction is claimed from infringing profits by the infringer, if the deduction is not explained in a satisfactory way, the Master does right in rejecting it.

Elizabeth v. Pavement Co., 97 U. S. 126, 142.

The position of petitioner to the effect that it must be granted the cost of this straightening operation under the rule of *Tilghman v. Proctor*, 125 U. S. 136 (1888), is without merit. That case does not hold that where an infringing defendant adds another operation in the manufacture of its product on the infringing machine, the cost of that added operation is a deduction from its infringing profits, *if, as here, that added operation did not result from the use of*

the infringing machine, but, as the Master found, was attributable rather to improvement in the defendant's standards of workmanship.

What the Master found was that the defendant was putting out a better camshaft, and it added a straightening operation to do this. *This cost was not attributable to the use of the infringing machine, as the Master expressly found.* This finding of the Master was concurred in by the District Court and by the Court below. Here again there is no diversity of decision between the Master, the District Court, and the Court of Appeals on this fact question.

Petitioner's request that this Court issue its writ of certiorari to review this finding of fact should be denied.

POINT (3): The Master resolved the fact issue of apportionment against petitioner; and the District Court and the Court of Appeals approved and accepted this finding.

The Court of Appeals discusses this issue of apportionment at length (133 F. (2d) 487, 492, 493, 494), and states (p. 493) that Gordon's patent was generic; that Gordon and Redlin taught and gave to the industry a new method for shaping camshafts, which contributed substantially to the mass production of automobile engines. The Court points out that there is such a thing as second-hand improvements; and (133 F. (2d) 487, 493) that while Melling was working to improve Gordon's machine and was successful, Melling's accomplishment was not a creation and was not sufficiently different from Gordon to say that the fruit of Melling's mechanical tree was the only fruit that the Ford Company gathered; and that "Melling's improvements were not grafts on Gordon's patent tree, but only a limb upon it." The Court below referred to the decision of this Court in *Westinghouse Co. v. Wagner Mfg. Co.*, 225 U. S. 604, and quoted the confusion rule as stated by this Court in that case.

The respondent's position on this apportionment issue was two-fold:

(1) That this case was not one permitting apportionment because Gordon's patent was generic, and the alleged improvements made by Melling (even though patented) were held to infringe Gordon, and to be the mechanical equivalent of Gordon. Hence the alleged improvements were within the inhibited field of the patent, and that those alleged improvements gave no rise to a claim for apportionment in a legal sense.

Christensen v. National Brake and Electric Co., 10 F. (2d) 856, 866;
Flat Slab Patents Co. v. Turner, 285 Fed. 257, 282;
Tuttle v. Claflin, 76 Fed. 227, 234.

(2) Gordon's patent had been held generic, and Melling's alleged improvement had been held to infringe Gordon, and to be but the mechanical equivalent of Gordon. Gordon's invention gave value to the whole combination; and that if the Melling machine were stripped of the parts held to infringe Gordon, what would remain of the Melling machine would not constitute an operable unit. Since respondent proved that petitioner made tremendous profits by reason of the use of the infringing machine, the burden rested on petitioner to apportion (if apportionment were proper) and to offer proof which would enable the Master to determine what part, if any, of these profits were attributable to Melling.

The Master well understood the apportionment issue; he discussed it at length (R. 60-71). In his report he states that he does not find it necessary to determine the issue as to whether the Ford Company, as a matter of law, was entitled to an apportionment. *He finds that even if the right to apportionment is recognized, it is impossible to apportion on the proof offered, and that the burden was on Ford to ap-*

portion (R. 69). His finding is that Ford's evidence on the issue consisted almost wholly of expert testimony that one hundred per cent of the value of the infringing machines to the defendant was attributable to the Melling improvements; and he expressly finds (R. 71) that the impossibility of separating the profits sufficiently appears to impose the burden on the defendant, and that resort to the books of the defendant would be of no assistance on the issue; and that the respondent was entitled to all the infringing profits.

This finding of the Master was concurred in by the District Court, and by the Court of Appeals. The Court below thus states (133 F. (2d) 487, 494):

> "* * * The Gordon Company having shown the commingling of profits by the Ford Company, and it appearing that the latter company failed to keep records or to supply evidence that would disclose what proportion of the profits arose from the infringing devices and what proportion, if any, from Melling's improvements, the burden again returned to the Ford Company which it has failed to carry and such failure creates an unavoidable liability."

Mason v. Graham, 90 U. S. 261, does not offer petitioner any support on the issue of apportionment. In that case the Court was able to find and to segregate the saving resulting from the use of the improvement. In the instant case, the Master, the District Court, and the Circuit Court of Appeals found that there was such a commingling of profits that no such finding was possible.

The Master summarized his finding on this issue (R. 71):

> "Consequently, I conclude that the plaintiff is entitled to all the profits; as between that alternative and allowing the plaintiff none, that is the fairer result."

There is no conflict between the decision of the Court of Appeals on that issue and *Dowagiac Mfg. Co. v. Minne-*

sota Moline Plow Company, 235 U. S. 641, *Mason v. Graham*, 90 U. S. 261, *Westinghouse Co. v. Wagner Mfg. Co.*, 225 U. S. 604, and *Sheldon v. Metro-Goldwyn Corp.*, 309 U. S. 390. *In some of those cases proof was offered by the party upon whom the burden of proof rested, justifying the claim of apportionment, and fixing the amount of the profits not attributable to infringement.* As the Master pointed out (R. 70), in this case there was no such helpful proof offered. Here again there is no diversity of decision between the Master, the District Court, and the Court of Appeals on this fact question.

Petitioner's request for the issuance of a writ of certiorari to review the finding on this fact issue of apportionment should be denied.

POINT (4): Melling's patent 1,634,550 infringed Gordon.

Petitioner's point seems to rest on its claim that in the above patent a straight line up and down movement of the tool was substituted for the tool tilting movement found by the Court of Appeals to constitute the gist of the Gordon invention; and that from this it follows that the tilting movement of the tool was not necessary or essential to the successful operation of the infringing machines. *The difficulty with this position of the petitioner is that the Master found that the modified Melling machine made under this patent infringed Gordon* (R. 24). *The Master pointed out that this same conclusion was reached by petitioner's chief tool designer after inspecting this so-called "parallel head Walcott" in 1929.*

The Court of Appeals held Gordon's invention was a pioneer invention, the Gordon patent a generic patent, and the claims were entitled to a wide range of equivalents. Hence only the question of infringement of this patent 1,634,550 remained to be decided in the accounting matter. Under such circumstances, the infringement question was solely a question of fact.

U. S. v. Societe, 224 U. S. 309, 322.

The Court of Appeals discussed this issue at length (133 F. (2d) 487, 495, 496); and under Rule 53 (e) (2), 28 U. S. C. A., foll. § 723c, expressly confirms the findings of the Master supported by the Trial Judge.

Here again there is no diversity of decision between the Master, the District Court, and the Court of Appeals on this fact question.

The petitioner's request for a writ of certiorari of this Court to review this finding of fact should be denied.

POINT (5): Petitioner unlawfully used Gordon's invention.

The Master, the District Court, and the Court of Appeals found that the Ford Company made profits from the use of the infringing machine. The Court of Appeals held in *Gordon Form Lathe Company v. Walcott Machine Company* (32 F. (2d) 55, 61), that this same machine which petitioner used infringed Gordon's patent, the Court holding that infringing machine accomplished the same result as Gordon by the employment of substantially the same means or their equivalents, operating in substantially the same manner. Melling's conception, therefore, under the patent law (as embodied in the infringing machines), and Gordon's conception were one and the same thing.

Machine Co. v. Murphy, 97 U. S. 120, 125.

The Master discussed the matter of this royalty referred to by petitioner on page 31 of its brief; and the Master finds that the 10% royalty paid by the respondent to a company in which Gordon had a large financial interest in a large measure amounted to a transfer of money from one pocket to another. The Master also found that the royalties thus paid were paid *by* the respondent and not *to* the respondent.

The Master rejected this 10% payment as being of no evidentiary value in determining a reasonable royalty. The District Court approved this finding as did the Court of Appeals. That Court discussed the question of reasonable royalty (133 F. (2d) 487, 500, 501); and states that the Master's findings are based upon evidence and inferences reasonably drawn; and since the Master's findings were approved by the District Court, they were accepted by the Court of Appeals in the absence of clearly recognized mistake.

Here again there is no diversity of decision on this fact question between the Master, the District Court, and the Court of Appeals.

The District Court and the Court of Appeals sustained the Master's finding of reasonable royalty of $5,000.00 per machine, the Court of Appeals expressly stating that such result has support in the evidence; and that it does full justice to the Gordon Company. In arriving at his finding of fact on this matter, the Master had the advantage of knowing that the infringing profits received by the petitioner exceeded the reasonable royalty awarded. Under all the authorities the fact of the receipt of these profits was evidence bearing upon reasonable royalty. There was substantial evidence bearing on reasonable royalty which would sustain a royalty of 6¢ a shaft, which would have amounted to over $400,000.

The Master found a reasonable royalty of $120,000 for petitioner's use of the infringing machines. The Master's conclusion on this point is (R. 80) to the effect that the plaintiff and defendant would have come to an agreement to pay $120,000 at the time if the defendant had recognized the Walcott machines as infringing Gordon's patent.

Here again there is no diversity of decision between the Master, the District Court, and the Court of Appeals on this fact question.

Petitioner's application for a writ of certiorari to review this finding of fact should be denied.

POINT (6): The respondent effected and retained considerable overhead savings by reason of the use of the infringing machines.

On pages 33 to 37 of its brief, the petitioner takes the position that respondent is not entitled to recover any overhead savings which the petitioner effected and retained by reason of the use of the infringing machines. Petitioner's position on this issue is the same before this Court as it was before the Master, the District Court, and the Court of Appeals. That position, when properly analyzed, is that overhead never represents anything but inevitable expense; and that for some unknown reason, where that expense is reduced by the use of the infringing machines, thus effecting a saving, the patent owner is not entitled to recover this saving.

This issue on overhead was discussed very thoroughly by the Master (R. 47-59). The evidence was overwhelming that by the use of the infringing machines, the petitioner was able to turn out more camshafts per man hour of operation than was possible by the use of any of its standards of comparison. This meant that the petitioner made a saving in direct labor costs. The Master found that this direct labor saving was only part of the savings—that there were also other savings in overhead. The Master found the amount of these overhead savings and awarded them to the respondent.

The Court below in a footnote (133 F. (2d) 487, 499) listed thirty-one separate items of overhead, being the petitioner's breakdown of overhead items. *The Master found that this breakdown of overhead items constituted petitioner's breakdown at the time of the trial* (which was long after the period of infringement), *the Master expressly finding* (R. 48) *that the records showing the breakdown of*

departmental overhead in its component elements for the accounting period have been destroyed, although total departmental overhead figures are available.

The Master (R. 51, 52) found from the evidence that overhead expenditures were rather dealt with generally in broad classes; and that each class is apportioned between the infringing and non-infringing branches of the business on some recognized accounting basis, such as proportionate direct labor costs. The Master also found that on occasions when it was necessary for the petitioner to determine the cost of operations in producing a part, petitioner's department's ratios of burden to direct labor costs were used to apportion burden among the operations (R. 47).

The respondent in this case took the position that it was entitled to recover all of the savings realized by petitioner through the use of the infringing machines; and that a part of these savings was represented by savings in overhead. It offered considerable evidence on this issue, and it maintained that since petitioner had not preserved its records with respect to its savings in the various overhead items resulting from the use of the infringing machines, the Master was entitled to use the same method of determining overhead and resultant overhead savings, as the petitioner itself used in its own accounting; and that those savings were correctly found by applying the petitioner's departmental overhead percentage rates to the direct labor saving resulting from the use of the infringing machines.

The Master found (R. 49) that there was a saving on the use of the infringing machine with respect to factory supervision (R. 53), employees' liability and compensation insurance, timekeeping, pay roll, and clerical salaries (R. 53), power costs (R. 54), machine depreciation, machine maintenance and repair, cutting tool costs (R. 54, 55, 56), and overhaul costs (R. 55, 56). Summarizing his finding on the overhead savings, the Master says (R. 57):

"It would seem unfair, however, to ignore overhead savings, *since it seems reasonably clear that substantial savings in those costs were realized by defendant in using the Walcott lathe in place of the shaper on Model T and A production.* While it is recognized that application of general ratios of overhead to direct labor costs would lead to unfair results in many cases, I believe an analysis of the evidence here indicates that with the shaper and Walcott machines overhead costs by and large would vary in proportion to direct labor. While some of the elements of overhead would vary little, if at all, these static costs are offset by some elements (e.g., depreciation and cutting tool costs) which would probably increase with the substitution of the shapers for the Walcotts in a greater proportion than direct labor. I therefore adopt the method of computing overhead costs for these two machines by using the departmental percentages. I think this treatment is in line with the cases on the treatment of overhead in patent accountings, and also with the practice of cost accountants to apportion manufacturing burden on a direct labor basis where a more precise method is not feasible. It is to be observed that this method takes into consideration the increased depreciation and maintenance costs of the Model A shaper, since the reduction in speed for that form of shaper increases the overhead costs thus calculated, and since, moreover, the departmental overhead percentages ran considerably higher for Model A and Model T production."

This finding of the Master was rejected by the District Court. The District Court stated (R. 121) that even though he rejected the Master's finding on this overhead issue,

> "I am very frank to say that there are very few things in this case that I approach with that feeling of uncertainty; * * *."

The District Court's reasoning in overruling the Master on this issue was based on the assumption that the petitioner did not raise or decrease the salary of a single executive officer, nor did it change the size of its plant (R.

126) as the result of the discontinuance of the machines it was using prior to the adoption of the infringing machines. The District Court did not disapprove any findings of the Master with respect to the actual savings in specific items of overhead. The District Court gave no consideration to the actual savings in certain overhead items which the Master found had resulted from the use of the infringing machines.

The Court of Appeals discusses this overhead issue at length (133 F. (2d) 487, 499, 500), and holds that the District Court should have sustained the Master on this issue, and reverses the District Court. The Court of Appeals points out that the Master ascertained the savings on overhead expense in the same proportion that direct labor cost and time were reduced by the use of the infringing machines. The Court of Appeals also sustains the Master's finding (133 F. (2d) 487, 500) to the effect that the departmental overhead expense was not increased by the use of the infringing machines; and (p. 500) that the production of the cam roughing operations for the Model T camshaft was increased by the use of the infringing machines over the Ford shapers (the standard of comparison) from fifty to seventy-five shafts per hour, and on the Model A camshafts from thirty-six to sixty (over the most favorable standard of comparison urged by petitioner), and on the tractor camshafts from eight to forty over the Landis grinders, which were actually used to make the tractor shafts before infringement began. The Court of Appeals then points out that the inescapable inference from the facts is that the Ford Company was able with the same overhead organization and with reduced capital expenditure to increase substantially the production of camshafts per hour by the use of the infringing machine, and that (p. 500) it is certain that the petitioner gained an advantage in overhead by the use of the infringing machines and that under settled rules of law, the respondent was

entitled to this saving or advantage measured in money. As the Court of Appeals then points out, the direct labor and time cost method of distribution of manufacturing expense used by the Master is based on the theory that the relationship between manufacturing expense and direct labor cost and time consumed in production are so related that by the use of this method the manufacturing cost will be fairly distributed over the entire output and may be allocated to each item with reasonable certainty, and that this method is widely used by manufacturers and gives very satisfactory results if the percentage is properly predetermined; and that there was no issue raised here as to the correctness of the percentages.

The Court of Appeals further pointed out that, in any event, the Master followed the petitioner's own method of accounting to determine the apportionment of manufacturing overhead, and that while this method may not accurately prove the cost, it is the best approximation that can be made under the evidence. Citing *Duplate Corp. v. Triplex Safety Glass Co.*, 298 U. S. 448.

Here again was a fact question: What overhead savings, if any, were realized by the petitioner through the use of the infringing machines? *The petitioner did not preserve its detailed overhead expense records. It did, however, preserve its departmental percentages for the infringing period.* The Master found that the petitioner made savings in many items of overhead expense. Under Rule 53 (e)(2), 28 U. S. C. A., foll. § 723c, this finding of the Master should have been accepted by the District Court, since it was based upon substantial evidence; and, in any event, it was not clearly erroneous. The Court of Appeals reinstated this finding of the Master, thus correcting the error made by the District Court.

It is rather anomalous for the petitioner to claim that even though it may destroy its primary and detailed records with respect to its overhead expense on the infringing

machines and the prior machines in a patent accounting matter it may not be charged with overhead savings which resulted to it from the use of the infringing machine, when the Master found on the evidence that there were considerable savings in overhead resulting from the use of the infringing machines. No injustice is done to the petitioner when the Master follows the petitioner's own method of accounting in allocating overhead and apportions this item on the percentage of direct labor. Since direct labor on the infringing machines was less than on the standards in each instance, the savings were readily computable.

Petitioner's application to the Court for writ of certiorari to review this finding of fact by the Master, concurred in by the Court of Appeals, should be denied.

POINT (7): The Master found damages of the respondent, by way of reasonable royalty, in the sum of $120,000, which finding was concurred in by the District Court and the Court of Appeals.

Respondent is unable to understand petitioner's argument as to Point (7), pages 37, 38, 39, and 40 of its brief. The Master's finding as to reasonable royalty was that the $120,000 would represent a fair and reasonable royalty for the use of the 24 infringing machines by petitioner (R. 71-80). The District Court approved this finding, as did the Court of Appeals. The Court of Appeals discussed the issue (133 F. (2d) 487, 501) and stated that the Master gave proper weight to all considerations, and that the Master's findings, concurred in by the District Court, would be accepted by the Court of Appeals, in the absence of clearly recognized mistake.

The Master found (R. 93) that the respondent was entitled to its choice of petitioner's infringing profits amounting to $206,824.22; *or* $120,000.00 as respondent's damages. *This finding of the Master was confirmed in its entirety by*

the Court of Appeals in its decree in No. 9122. The Master answers each one of the "conditions precedent" referred to by petitioner on pages 38 to 40 of its brief, and disposes of each of these in a well-reasoned opinion; and his findings are based on the evidence. The Court of Appeals referred to the report of the Master (133 F. (2d) 487, 492) as being "a very able and complete report on the claims of the parties and a thorough discussion of the facts and applicable law."

It has been pointed out heretofore that the petitioner used twenty-four infringing machines; and that it continued to use some of these machines long after the Court of Appeals had held (32 F. (2d) 55) that these particular machines infringed Gordon. The petitioner consistently refused to make any settlement with respondent; and relitigated the question of infringement (87 F. (2d) 390). It had the use of these infringing machines in turning out nearly eight million camshafts; and the Master finds that its profits arising from the use of these infringing machines were in excess of $206,000.

The Master does not award the respondent both profits and damages. The respondent has the choice of the two.

Here again there is no diversity of decision between the Master, the District Court, and the Court of Appeals on this fact question.

This finding of fact of the Master, concurred in by the District Court and the Court of Appeals, affords the petitioner no claim for a writ of certiorari of this Court to review this finding.

CONCLUSION.

Based on the foregoing argument, it is respectfully submitted that on the several points upon which the petitioner seeks review by this Court, the Circuit Court did not err. That Court accepted the findings of the Master in their entirety. These findings were based upon substantial evidence. Under Rule 53 (e) (2), 28 U. S. C. A. foll. Sec. 723c, the District Court should have accepted all of those findings. The Court of Appeals corrected an error made by the District Court in this matter; and accepted the Master's findings, concurred in by the District Court, on all of the other issues raised by the petitioner here and before the Court of Appeals. Under Rule 52 (a), 28 U. S. C. A., foll. Sec. 723(c) the Court of Appeals could not do otherwise than accept the findings of fact of the Master which were accepted by the District Court.

Wherefore, respondent prays that the petitioner's petition be denied; and that on that petition this Court refuse to issue its writ of certiorari.

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